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U.S.-Latin American Trade: Recent Trends

J. F. Hornbeck
Specialist in International Trade and Finance
Foreign Affairs, Defense, and Trade Division

Summary

Since congressional passage of Trade Promotion Authority (TPA) in August 2002 (P.L. 107-210), the U.S.-Chile free trade agreement (FTA) has been implemented and negotiations were concluded on the Dominican Republic-Central America-United States Free Trade Agreement (DR-CAFTA). Implementing legislation may be introduced in the first session of the 109th Congress. Other important U.S.-Latin America trade initiatives include FTA negotiations with three Andean countries and Panama, and the ongoing but slowed talks on the Free Trade Area of the Americas (FTAA).[1] Congress defined trade negotiation objectives in TPA and trade agreements are enacted only after Congress passes implementing legislation. This report supports the congressional role in trade policy by providing an analytical overview of U.S.-Latin American trade data and trends, and will be updated.

Developments in U.S.-Latin American Trade

Trade is arguably the driving issue in contemporary U.S.-Latin America relations. Although not the largest, Latin America is the fastest growing U.S. regional trade partner. Between 1992 and 2004, total U.S. merchandise trade (exports plus imports) with Latin America grew by 196% compared to 120% for Asia, 111% for the European Union, 147% for Africa, and 134% for the world. It should be pointed out, however, that most of the growth in Latin American trade was due to Mexico, which is not only the largest U.S. regional trade partner in dollar terms, but also the fastest growing. As seen in **Figure 1**, from 1992 to 2004, Latin America's share of U.S. world trade, excluding Mexico, has not changed, whereas Mexico's share expanded from 7.7% to 11.7%, reflecting enormous growth (individual country data appears in **Appendix 1**.)

In 2004, U.S. trade worldwide continued to rebound, largely reflecting recovery from slowed global economic growth in 2001. U.S. exports to the world grew by 12.9% in 2004, following a 4.4% increase in 2003. Among the larger trade partners, U.S. exports grew by 22.4% to China, 11.3% to Canada, 11.1% to the European Union, 9.4% to South

[1] CRS has individual reports on all these agreements, which may be found at http://www.crs.gov/.

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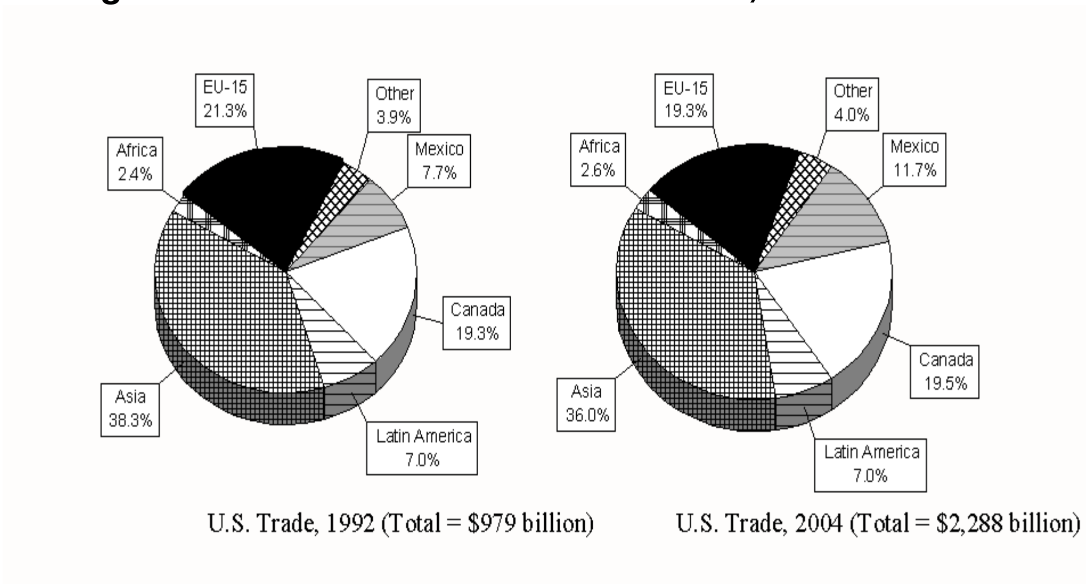
Korea, and 4.6% to Japan. U.S. exports to Latin America grew by 15.3% in 2004, with export growth to Mexico, the second largest U.S. export market, expanding by 13.2%.

Figure 1. U.S. Direction of Total Trade, 1992 and 2004



(**Source**: CRS from U.S. Department of Commerce data.)

U.S. export growth to some of the larger Latin American markets in 2004 varied. Exports expanded briskly to Venezuela (68.9%), Argentina (38.9%), Chile (33.5%), Brazil (23.7%), Colombia (20.0%), and grew more slowly to other countries such as the Dominican Republic (3.3%) and Costa Rica, where it actually declined by 3.2%. These disparate trends point to equally disparate national economic and political events in Latin America, such as the effects of fast economic growth in Brazil and Argentina and a slow recovery from recession in the Dominican Republic. Central America experienced moderate growth in both economic output and demand for U.S. exports.

On the import side, continued strong growth of the U.S. economy resulted in increased demand from foreign goods, despite a weakening U.S. dollar. U.S. import consumption for the world rose by 16.9% in 2004. Imports expanded by 29.0% from China, 24.0% from South Korea, 15.5% from Canada, 11.5% from the EU, and 9.8% from Japan. Imports from Latin America rose by 17.4% on average and by 45.7% from Venezuela, 27.8% from Chile, 18.2% from Argentina, 18.1% from Brazil, 14.2% from Colombia, 12.9% from Mexico, 9.9% from Honduras, 7.1% Guatemala, 1.6% from the Dominican Republic, and declined by 1.0% from Costa Rica. For most of the high growth countries, the dollar value of imports rose because of precipitous price increases for iron and petroleum. The added earnings no doubt also affected the increase in U.S. exports to many of these countries.

Mexico made up 11.7% of U.S. trade in 2004 and, as seen in **Appendix 1**, it is the largest Latin American trading partner, accounting for 63% of the region's trade with the United States. These trends point to the long-term and increasing economic integration between the two countries, in part the result of their deliberate trade liberalization efforts, including the North American Free Trade Agreement (NAFTA). By contrast, the rest of Latin America together makes up only 7.0% of U.S. trade, potentially leaving room for

significant growth. Brazil, for example, has the second largest economy in Latin America, is the second largest Latin American trading partner of the United States, but accounts for only 8.2% of U.S. trade with Latin America, or 1.5% of global U.S. trade.

The region's increasing importance as a U.S. trading partner reflects developments in both the United States and Latin America. In the United States, merchandise trade has become a more important component of the economy, growing from 7.9% of gross domestic product (GDP) in 1970 to 19.5% in 2004. Since the 1980s, many Latin American countries have adopted market-based economic reforms, including trade liberalization. Average Latin American (not including the Caribbean) import tariffs have declined from 45% in 1985 to 9.3% by 2002, although the rates varied among countries from a high of 16.4% in Mexico to a low of 6.0% in Costa Rica.[2] Trade reform has been widespread and represents an opportunity for U.S. firms to penetrate new markets, but it has not been embraced with equal vigor by all countries, particularly for some U.S. goods. Also, trade reform can be delayed or even reversed if countries face economic or political instability. The financial crisis in Argentina, for example, led to decisions to encourage exports, but also to impose higher export taxes, which had an offsetting effect.

Tariff rates have fallen throughout Latin America and so only partially explain differences in economic integration among countries. Two other simple measures of trade openness appear in **Table 1** and point to cases where trade reform may be more apparent than in others. For example, Mexico, Chile, and Costa Rica are considered among the early and more successful reformers of trade policy. For each in 2002, total merchandise trade (exports plus imports) was more than 50% of GDP. By contrast, total merchandise trade accounted for a much smaller 29% of GDP in Brazil and 40% in Argentina, two countries generally associated with lagged or incomplete trade reforms. Argentina's percentage actually spiked in 2002 from 17% in 2001 because of its financial crisis.

The trade-to-GDP ratio, however, may reflect other than trade policy factors. The ratio can be smaller for those countries with large domestic markets that are less trade dependent. This may be the case for Brazil, which has a large domestic manufacturing base. Conversely, the ratio may be larger for small economies that are relatively more trade dependent, such as the Dominican Republic, which as part of its pursuit of trade liberalization, has also developed a manufacturing export base tightly linked to the United States. Still, the lower trade-to-GDP ratio for Brazil and some other countries stands out.

The per capita dollar value of goods a country imports from the United States is another specific measure of trade openness (**Table 1**). Brazil and Argentina increased their per capita dollar value of U.S. imports from 1990 to 2003, but to only a fraction of that for Mexico and Costa Rica, for example. Mexico's high figure again reflects an evolving trade liberalization policy dating to the mid-1980s and its historical ties with the U.S. economy. Costa Rica's high per capita consumption of U.S. goods reflects a similar relationship that has seen enormous growth in recent years. Brazil and Argentina, by contrast, have higher restrictions on trade with the United States and other countries, in part reflecting trade policy and trends defined by the regional customs union, Mercosur (Mercado Común del Sur — Southern Common Market), and historically closer trade ties

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[2] Data provided by Inter-American Development Bank.

with Europe.[3] Argentina's deep financial crisis led inevitably to severe "import compression" as aggregate demand fell over four consecutive years and as the effects of the peso devaluation took hold. Differences in income can also be an important factor explaining variations in U.S. import consumption, but per capita gross national income (GNI) data shown in **table 1** suggest that it does not stand out as a factor in this case.

Table 1. Measures of Trade Openness for Seven Top U.S. Trading Partners in Latin America

	Trade in Goods (% GDP) 1990*	Trade in Goods (% GDP) 2002*	Per Capita Imports from U.S. 1990**	Per Capita Imports from U.S. 2003**	Per Capita GNI 2002 (PPP)#
Mexico	40.7%	55.4%	$328	$1,350	$8,800
Brazil	15.2%	28.9%	$34	$100	$7,450
Dom. Rep.	69.2%	85.7%	$254	$495	$6,270
Colombia	35.4%	40.7%	$62	$145	$6,150
Argentina	15.1%	40.2%	$36	$85	$10,600
Chile	66.0%	66.0%	$126	$230	$9,420
Costa Rica	70.6%	90.0%	$352	$800	$8,560

Data Sources: Calculations by CRS from the following data sources. *Sum of merchandise exports and imports divided by GDP, per national account data as reported in IMF, *International Financial Statistics*. **IMF, *International Financial Statistics* and U.S. Department of Commerce. #GNI PPP - gross national income converted to international dollars using purchasing power parity rates. An international dollar has the same purchasing power over GNI as the U.S. dollar in the United States. World Bank, *2004 World Development Indicators*, World Bank website.

The trade data suggest that there may be room for growth in trade between South America and the United States. For example, Central America's total merchandise trade with the United States amounted to $23.3 billion in 2003, compared to Brazil's $29.1 billion (**appendix 1**). These figures, however, represent 36% of Central America's GDP, compared to 6% of Brazil's, suggesting significant room for growth in the latter's trade with the United States. Trade policy changes, at the margin, could provide some of the basis for growth in U.S.-South American trade, but they may not be huge immediately given South America's historically small interest in the United States and the limited size of their markets. Still, many economists believe that lowering barriers to U.S. trade with South America and guaranteeing market access may generate long-term trade and investment opportunities. Similarly, access to high quality U.S. exports and the large U.S. market presents an attractive opportunity for Latin American countries, as well.

U.S.-Latin America Trade Relations

The United States and Latin America have pursued trade liberalization through multilateral, regional, and bilateral negotiations, with mixed results. In part this reflects their divergent priorities. For many Latin American countries, reducing barriers to agricultural trade is top of the list for a successful agreement. This goal includes reducing market access barriers such as tariffs and tariff rate quotas (TRQs), domestic subsidies,

[3] For details, see United States International Trade Commission. *Market Developments in Mercosur Countries Affecting Leading U.S. Exporters*. Publication 3117, July 1998.

and the use of antidumping provisions. Although there are many other issues, agriculture has played a big part in slowing progress in the World Trade Organization (WTO) Doha Development round and the Free Trade Area of the Americas (FTAA). In contrast, the United States has made clear its unwillingness to address most agricultural issues in a regional agreement like the FTAA so it can use its bargaining leverage in the WTO against even more aggressive subsidizing countries like the European Union and Japan. Although Latin American counties have their own sensitive products and a concern for the subsistence agricultural sector, the latter is as much a development as trade issue.

For its part, U.S. trade policy goals hinge on negotiating provisions that support its competitiveness such as: services (financial, tourism, technology, professional, among others), intellectual property rights (IPR), government procurement, and investment. Not surprisingly, these are areas where many Latin American countries are reluctant to negotiate. Hence, there is a near reversal of priorities that has slowed the progress of comprehensive agreements at the multilateral and regional levels.

The result in the Western Hemisphere has been the proliferation of bilateral and plurilateral agreements that include NAFTA, Mercosul, and smaller arrangements like the Central American Common Market. The United States is advancing its agenda through bilateral initiatives with Chile, Central America, Panama, the Dominican Republic, and selected Andean countries. Brazil, as the other major regional economy not in an agreement with the United States, moved ahead separately in 2004 by adding associate members of Mercosur, for a total of eight, and having all the major South American countries form the South American Community of Nations. Although these are neither deep nor comprehensive agreements, they do signal a political will to consolidate regional bargaining interests against the United States.

Two clear challenges emerge from this picture. First, Brazil and the United States appear to be having problems moving off their respective positions, which has stalled progress in the FTAA and raises the question of whether a two-pole, hub-and-spoke trading system may dominate if a larger regional agreement is postponed indefinitely. Second, multiple FTAs by definition promote a cumbersome trading system with each FTA having its own rules of origin (to avoid transshipment problems) and related administrative and enforcement requirements that complicate investment and trading decisions.

Resolving this situation will not be easy and may require progress on multiple fronts. For example, it seems that without advancement in agricultural issues at the WTO, moving ahead with a comprehensive FTAA may be unlikely. A less comprehensive FTAA may not be considered worth the political battle needed to pass it and offers a far less compelling alternative to the WTO on economic grounds, suggesting that the FTAA may not emerge in the near future, despite the logical solution it brings to a disparate web of subregional FTAs. Together, these circumstances suggest that a new chapter of trade negotiations between developed and developing countries is here, which may take patience and new creative solutions to navigate. Despite these difficulties, the debate has not been abandoned because trade issues are unavoidably part of larger concerns with economic reform, development, and globalization, all themes at the forefront of U.S. and Latin America foreign policy agendas.

Appendix 1. U.S. Merchandise Trade with Selected Latin American Countries, 1992-2004

($ billions)

Country	1992	1994	1996	1998	2000	2002	2004	% Change 02-04	% Change 92-04
U.S. Exports									
Brazil	5.8	8.1	12.7	15.2	15.4	12.4	13.9	12.1%	139.7%
Venezuela	5.4	4.0	4.8	6.5	5.6	4.5	4.8	6.7%	-11.1%
Colombia	3.3	4.1	4.7	4.8	3.7	3.6	4.5	25.0%	36.4%
Dom. Rep.	2.1	2.8	3.2	4.0	4.4	4.3	4.3	0.0%	104.8%
Chile	2.5	2.8	4.1	4.0	3.5	2.6	3.6	38.5%	44.0%
Argentina	3.2	4.5	4.5	5.9	4.7	1.6	3.4	112.5%	6.3%
Costa Rica	1.4	1.9	1.8	2.3	2.4	3.1	3.3	6.5%	135.7%
Honduras	0.8	1.0	1.6	2.3	2.6	2.6	3.1	19.2%	287.5%
Guatemala	1.2	1.4	1.6	1.9	1.9	2.0	2.6	30.0%	116.7%
Peru	1.0	1.4	1.8	2.1	1.7	1.6	2.1	31.3%	110.0%
El Salvador	0.7	0.9	1.1	1.5	1.8	1.7	1.9	11.8%	171.4%
Panama	1.1	1.3	1.4	1.8	1.6	1.4	1.8	28.6%	63.6%
Ecuador	1.0	1.2	1.3	1.7	1.0	1.6	1.7	6.3%	70.0%
Nicaragua	0.2	0.2	0.3	0.3	0.4	0.4	0.6	50.0%	200.0%
Other	5.4	6.4	7.6	9.1	8.5	8.3	9.8	18.1%	81.5%
Total LAC*	35.1	42.0	52.5	63.4	59.3	51.7	61.4	18.8%	74.9%
Mexico	40.6	50.8	56.8	79.0	111.7	97.5	110.8	13.6%	172.9%
Total LA	75.7	92.8	109.3	142.4	171.0	148.9	172.2	15.6%	127.5%
World	448.2	512.6	625.1	680.5	780.4	693.1	817.9	18.0%	82.5%
U.S. Imports									
Brazil	7.6	8.7	8.8	10.1	13.9	15.8	21.2	34.2%	178.9%
Venezuela	8.2	8.4	12.9	9.3	18.7	15.1	25.0	65.6%	204.9%
Colombia	2.8	3.2	4.3	4.7	7.0	5.6	7.3	30.4%	160.7%
Dom. Rep.	2.4	3.1	3.6	4.4	4.4	4.2	4.5	7.1%	87.5%
Chile	1.4	1.8	2.3	2.5	3.2	3.8	4.7	23.7%	235.7%
Argentina	1.3	1.7	2.3	2.3	3.1	3.2	3.8	18.8%	192.3%
Costa Rica	1.4	1.7	2.0	2.8	3.6	3.1	3.3	6.5%	135.7%
Honduras	0.8	1.1	1.8	2.6	3.1	3.3	3.6	9.1%	350.0%
Guatemala	1.1	1.3	1.7	2.1	2.6	2.8	3.2	14.3%	190.9%
Peru	0.7	0.8	1.3	2.0	2.0	1.9	3.7	94.7%	428.6%
El Salvador	0.4	0.6	1.1	1.4	1.9	2.0	2.1	5.0%	425.0%
Panama	0.3	0.3	0.4	0.3	0.3	0.3	0.3	0.0%	0.0%
Ecuador	1.4	1.7	1.9	1.8	2.2	2.2	4.3	95.5%	207.1%
Nicaragua	0.1	0.2	0.4	0.5	0.6	0.7	1.0	42.9%	900.0%
Other	3.7	3.9	4.0	3.6	6.7	5.6	10.8	92.9%	191.9%
Total LAC*	33.6	38.5	48.8	50.4	73.3	69.6	98.8	42.0%	194.0%
Mexico	35.2	49.5	74.3	94.7	135.9	134.7	155.8	15.7%	342.6%
Total LA	68.8	88.0	123.1	145.1	209.2	204.3	254.6	24.6%	270.1%
World	532.7	663.3	795.3	913.9	1,216.9	1,161.4	1,469.7	26.5%	175.9%

Source: Table created by CRS from U.S. Department of Commerce data.

* LAC = Latin America and the Caribbean, except Mexico.